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Reporting on pass/fail grades on the uniform CPA examination: Status report, December 1998

American Institute of Certified Public Accountants. Board of Examiners

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STATUS REPORT

Reporting Pass/Fail Grades on the Uniform CPA Examination

December 1998

Prepared by the Board of Examiners of the
American Institute of Certified Public Accountants



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Executive Summary

In June 1998, the Board of Examiners issued an invitation to comment, *Reporting Pass/Fail Grades on the Uniform CPA Examination*. The purpose of the invitation to comment was to obtain the views of boards of accountancy and other interested parties on the acceptability and feasibility of reporting pass/fail grades instead of numeric grades on the Uniform CPA Examination. The impetus to consider this change resulted from discussions at the National Association of State Boards of Accountancy (NASBA) 1998 State Board Administrators Conference concerning a NASBA Examinations Committee report that suggested boards consider pass/fail grade reporting. Comments on the acceptability and feasibility of changing grade reporting on the Uniform CPA Examination were received from 30 of the 54 boards of accountancy and 13 other interested parties.

Among the major findings was that the 30 boards of accountancy were split in their desire for pass/fail grade reporting: 10 yes; 4 yes, when the Uniform CPA Examination becomes computer administered; 15 no; and 1 not sure).

After evaluating the responses to the invitation to comment, the Board of Examiners concluded that there is insufficient support at present for the Board of Examiners to report pass/fail advisory grades to the boards of accountancy. The Board of Examiners believes pass/fail grade reporting should be reevaluated when the Uniform CPA Examination becomes computer administered.

Reporting Pass/Fail Grades on the Uniform CPA Examination

Background

Since 1917, the AICPA has offered the Uniform CPA Examination to boards of accountancy to help them license CPAs. Boards of accountancy are obligated both to the public and to CPA candidates to use an examination that measures the candidates' relevant knowledge and skills and that distinguishes fairly between those candidates who meet the appropriate minimum requirements for entry into the profession as CPAs and those who do not. The Uniform CPA Examination assures boards that CPAs entering the profession have passed an examination that has uniform (1) content coverage, (2) difficulty, and (3) grading methodology and practices.

The Uniform CPA Examination is graded by the AICPA Board of Examiners' Advisory Grading Service. The Advisory Grading Service recommends grades to the boards of accountancy; however, a candidate's grades are not official until they are approved by the pertinent board of accountancy. Though rarely done, boards of accountancy have the right to reject or modify advisory grades.

From 1917 through the early 1940s, grades were reported as A, B, C, or F, similar to grades given in most colleges and universities. Since that time, grades have been reported on a scale of zero to 99, with 75 being the passing grade¹.

Because the Uniform CPA Examination, like most licensure and certification examinations, is essentially a pass/fail examination, some believe that grades should be issued as pass/fail only. Of those who believe grades should be reported as pass/fail, many also believe that supplementary diagnostic information should be provided with the grades to help failing candidates study for future examinations.

Despite the preceding argument for pass/fail grade reporting, only a small number of licensure examination programs do not report numeric grades. Of the major programs, only two—nursing and architecture—currently report pass/fail grades. Both of these examination programs currently administer their examinations by computer, and they initiated pass/fail grade reporting when they implemented computer-based testing.

In this context, the NASBA Examinations Committee initiated discussions at the NASBA 1998 State Board Administrators Conference about whether boards of accountancy should consider changing from numeric to pass/fail grade reporting. To facilitate discussion of the matter, the Board of Examiners developed an invitation to comment on the issue, and sent it in June 1998 to all boards of accountancy and other interested parties. Included in the invitation to comment was a questionnaire designed to elicit comments about pass/fail grade reporting.

Summary of Responses to the Invitation to Comment

The Board of Examiners received 43 questionnaires, letters, and e-mails responding to the invitation to comment: 30 responses represented the consensus of individual boards of accountancy, and 13 presented the views from other individuals or organizations. The latter include a state auditor (1), public member of a board of accountancy (1), a retired member of a board of accountancy (1), an executive director of a board of accountancy (1), representatives of

¹ Until November 1997, no grades were reported in the range of 70 through 74.

state CPA societies (2), an educator (1), recent CPA candidates (2), and other individuals (4). This report classifies the comments as either board of accountancy (BOA) or "other." The responses are summarized by the questions included in the questionnaire. The interpretive comments that follow are primarily those of the boards of accountancy because of the limited number of comments from the other respondents.

Question 1: Do you favor changing the grades reported to candidates on the CPA Examination from numeric to pass/fail grades?

| | BOAs | Other |
|---|-------------|--------------|
| Yes, as soon as possible | 10 | 4 |
| Yes, when the CPA Examination becomes computer administered | 4 | 0 |
| No | 15 | 9 |
| Not sure | 1 | 0 |

Less than half (47%) of the boards of accountancy responding indicated a preference for pass/fail grade reporting. Of these, over 25% (4 of 14) indicated they wanted pass/fail grade reporting only when the Uniform CPA Examination becomes computer administered. Fully half the boards of accountancy responding wished to retain numeric grade reporting.

Question 2: What do you see as the major advantages to a) the public, b) candidates, c) board members, and d) board administrators from changing the grades reported to candidates on the CPA Examination from numeric grades to pass/fail grades?

Responses indicating advantages to:

| | BOAs | Other |
|----------------------|-------------|--------------|
| The public | 6 | 2 |
| Candidates | 9 | 2 |
| Board members | 9 | 2 |
| Board administrators | 13 | 1 |

Several respondents stated that changing from numeric to pass/fail grade reporting would be consistent with the purpose of the examination (certify/don't certify), and therefore, would serve the public interest. One respondent said that by making the examination pass/fail, grades could not be rank ordered and thereby used inappropriately in making employment decisions.

Three respondents, in discussing the advantages for the candidates, mentioned that pass/fail grade reporting would eliminate the potential for employers to use examination scores in a manner for which they were not intended (e.g., for hiring purposes). (These comments parallel one listed as an advantage to the public.) One respondent mentioned that pass/fail grade reporting would make the grades less confusing to candidates. Another respondent stated that pass/fail grading would

save many candidates from spending money on needless grade reviews. However, pass/fail grade reporting was seen by others (see responses to Question 3) as potentially increasing the number of review requests.²

Three boards of accountancy responded said that an advantage for board members is that switching to pass/fail grading would decrease candidate appeals. On the other hand, one of the BOAs responded that it was difficult to determine the effects on appeals, referring to a Certified Management Accounting (CMA) Examination administrator who indicated that grade appeals increased when that examination stopped reporting numeric grades.

In answering the question about advantages to board administrators, eight respondents (7 BOAs, 1 "other") said that eventually pass/fail grade reporting would result in fewer candidate requests for information. Three boards of accountancy indicated that pass/fail grade reporting would make processing examination grades easier.

Question 3: What do you see as the major disadvantages to a) the public, b) candidates, c) board members, and d) board administrators from changing the grades reported to candidates on the CPA Examination from numeric grades to pass/fail grades?

Responses indicating disadvantages to:

| | BOAs | Other |
|----------------------|-------------|--------------|
| The public | 7 | 2 |
| Candidates | 18 | 4 |
| Board members | 6 | 1 |
| Board administrators | 10 | 1 |

Boards of accountancy generally felt that pass/fail grade reporting had few disadvantages for the public. Ten boards specifically stated pass/fail grade reporting had no disadvantages for the public. Two BOAs responded that pass/fail grade reporting would result in an overall loss of information to the public. Two boards suggested that pass/fail grade reporting would create the impression that the boards were hiding information from the public.

Regarding disadvantages to candidates, 16 boards commented that pass/fail grade reporting would result in a loss of information that may be—or at least seem—unfair to candidates. One board indicated that pass/fail grade reporting would increase candidates' anxiety, presumably because candidates would have less information about their examination performance.

Boards were mixed on the disadvantages to their own members. Though nine specifically indicated they saw no disadvantages, two boards stated that pass/fail grade reporting would result in increased inquiries and more candidate dissatisfaction. One board indicated that if board

² For the November 1997 Uniform CPA Examination, the first administered with grades issued from 70 through 74, the number of Advisory Grading Service Review requests increased significantly from an average of about 350 (20 per 10,000 papers) to just under 3000 (140 per 10,000 papers). About 2,200 reviews were requested by candidates in May 1998 (135 per 10,000 papers).

members only had pass/fail grades to evaluate, they would lack the detailed information needed to perform their functions adequately. This board also believes that pass/fail grade reporting would give the appearance that boards of accountancy were no longer in control of the Uniform CPA Examination. Another board stated that pass/fail grade reporting would lessen the boards' ability to review/change grades. Another board commented that pass/fail grade reporting could result in increased reliance on NASBA's Examination Review Board as well as the Board of Examiners (BOE). Finally, one board stated that it would make conditional credit more complicated.

Regarding disadvantages to board administrators, six boards believed pass/fail grade reporting would present no disadvantages. However, eight boards believed that pass/fail grade reporting would result in an increase in the number of inquiries from failing candidates, presumably bringing with it a substantial administrative burden. One board indicated that pass/fail grade reporting would hamper boards' ability to detect any errors in the AICPA's advisory grades.

Question 4: What do you see as the major impediments to changing the grades reported to candidates on the CPA Examination from numeric grades to pass/fail grades?

Only one board specifically stated that it saw no impediments to adopting pass/fail grade reporting. Eleven BOAs commented that pass/fail grade reporting might require statutory/regulatory changes or would affect conditioning. Eight BOAs stated that pass/fail grade reporting would result in less information to boards, the public, candidates, or educators, presumably making it difficult to sell the pass/fail grade reporting concept to these constituents. One BOA said that the difficulty in gaining concurrence among the 54 jurisdictions would impede changing from numeric to pass/fail grade reporting.

Question 5: Please check the rating that best describes how you feel about the acceptability of the two pass/fail grade-reporting options described [below], and indicate whether implementing the options is feasible in your jurisdiction. Please describe other pass/fail grade-reporting options that you believe would be superior to the two options described [below].

The two pass/fail grade-reporting options presented in the invitation to comment were:

Option #1: AICPA reports numeric advisory grades to boards, which convert them to "pass/pass (no credit)/fail" grades for reporting to candidates.

Option #2: AICPA reports letter advisory grades to boards, which convert them to "pass/pass (no credit)/fail" grades for reporting to candidates.

Boards generally did not like Option #1. Only five boards said that this option was either completely or generally acceptable. Conversely, 14 BOAs said this option was either completely or generally unacceptable. Boards were mixed on the feasibility of implementing this option, 10 saying it would be feasible and 11 indicating it would not.

The responses to Option #2 were consistent with those to Option #1. Seven BOAs stated that reporting letter advisory grades, which could be converted to pass/fail grades by each jurisdiction, was either completely or generally acceptable. In contrast, 12 BOAs indicated that this option was either completely or generally unacceptable. Boards generally believed that implementing Option

#2 would be more feasible than Option #1. Fourteen boards indicated Option #2 would be feasible to implement, while only eight boards indicated it would not be feasible.

In response to the question of other options that respondents thought would be superior to the two options described above, one board suggested that the AICPA advisory grades should be reported to jurisdictions in pass/fail form. That board went on to say that if it was not feasible for the AICPA to report advisory grades as pass/fail, then perhaps the conversion could be done by the National Association of State Boards of Accountancy (NASBA). This board also felt strongly that numeric grades should not be reported to boards of accountancy under *any* option because boards must be responsive to Freedom of Information Acts. By reporting numeric advisory grades, the Board of Examiners would leave the boards vulnerable to Freedom of Information Act inquiries from candidates. However, this board did not comment on whether it believed Freedom of Information Act requests would simply be shifted from the state boards to the AICPA or NASBA. Another BOA stated that no pass/fail grade reporting method should require the boards to convert grades because of the resulting administrative burden.

Question 6: Would your board of accountancy have to change its statutes, rules, or regulations to report pass/fail grades to candidates? [If "yes," please describe the necessary changes and the anticipated time and difficulties in making the changes.]

| | BOAs |
|----------|------|
| Yes | 16 |
| No | 7 |
| Not Sure | 0 |

In general, changing to pass/fail grade reporting would require boards to make some changes to their statutes, rules, or regulations. Sixteen boards of accountancy checked that pass/fail grade reporting would require changes to their statutes, rules, or regulations, while seven boards checked that they would need no changes.

Of the 16 boards that would have to make changes, nine would need to change rules. Of these nine, six boards could make the changes in less than one year, two could do it in one year, and one would require 1 to 2 years to make the rule changes. Three other boards indicated that changes in their statutes would be required for pass/fail grade reporting, with one requiring six months to one year to implement, the second requiring two years, and the third not indicating the length of time it would take to change its statutes. Four boards did not specify the nature or timing of the needed changes.

Question 7: How easy would it be for your board of accountancy to modify its grade-reporting system and any other systems or databases used to maintain records on CPAs to accommodate a change from numeric grades to pass/fail grades?

1. Candidate grade-reporting system

| | BOAs |
|-----------|-------------|
| Easy | 12 |
| Difficult | 7 |
| Not Sure | 3 |

2. Other systems or databases used to maintain records on CPAs

| | BOAs |
|-----------|-------------|
| Easy | 14 |
| Difficult | 7 |
| Not Sure | 1 |

Boards generally believe that modifying their databases and grade-reporting systems would not be a hardship if pass/fail grade reporting were adopted. Apparently, the internal record-keeping systems and processes of the boards or their agents are seen as being flexible enough to handle a change in grade reporting. This is in sharp contrast to the concerns about needing to change statutes, rules, and regulations that were expressed in the answers to Question 6.

Question 8: Who reports grades to candidates for your board of accountancy?

| | BOAs |
|-------------------------------|-------------|
| Board of accountancy | 13 |
| NASBA Grade Reporting Service | 6 |
| State agency | 1 |
| Other contractor | 3 |

Question 9: What is the earliest CPA Examination date your board of accountancy could implement pass/fail grade reporting?

| | BOAs |
|---------------|-------------|
| May 1999 | 5 |
| November 1999 | 5 |
| May 2000 | 4 |
| Other (date) | 5 |

If the Board of Examiners was to implement pass/fail grade reporting, many of the boards responding would not be able to issue pass/fail grades before 2000 at the earliest. Of the five

boards that selected a date other than the three provided, one indicated it would take two to three years after approval, one identified November 2001, one indicated it could implement pass/fail grade reporting when the Uniform CPA Examination becomes computer administered, and two indicated they would not change to pass/fail grade reporting.

Question 10: Would your board of accountancy change to reporting pass/fail grades to candidates even if most boards continued to report numeric grades to candidates?

| | BOAs |
|----------|-------------|
| Yes | 4 |
| No | 17 |
| Not Sure | 2 |

Though four boards replied that they would be willing to change to pass/fail grade reporting regardless of whether most other boards adopted it, 17 boards stated that they would not change. In addition, two BOAs responded that all BOAs should agree on a common reporting methodology.

Question 11: Would your board of accountancy continue to report numeric grades to candidates even if most boards began to report pass/fail grades?

| | BOAs |
|----------|-------------|
| Yes | 11 |
| No | 12 |
| Not Sure | 1 |

In sharp contrast to the responses to Question 10, almost half the boards responding indicated they would continue to report numeric grades even if pass/fail grade reporting was adopted by most other boards. This suggests that, at present, many boards are at least as concerned about the effects of pass/fail grade reporting as they are about retaining uniformity in reporting across jurisdictions. Under these circumstances, the Board of Examiners is extremely reluctant to entertain changing to pass/fail grade reporting at this time.

Question 12: If candidates were to receive only pass/fail grades, would the sample Candidate Diagnostic Report provide failing candidates with sufficient information about their performance in the various content areas to help them prepare to retake the CPA Examination?

| | BOAs | Other |
|----------|-------------|--------------|
| Yes | 15 | 1 |
| No | 5 | 1 |
| Not Sure | 5 | 2 |

Boards of accountancy generally expressed confidence that the current Candidate Diagnostic Report would provide enough information to failing candidates to help them prepare to take the Uniform CPA Examination again. Of those that indicated that it would not be adequate, one board stated that the Candidate Diagnostic Report needs to break out the content in more detail. Though some adjustments may be made through revisions of the content specifications, the Board of Examiners believes that providing grade information at more detailed content levels would result in unreliable and misleading diagnostic information for candidates.

One board suggested that changes be made in the way the information is reported on the Candidate Diagnostic Report. The board suggested that the "percentage of area earned" information on the Candidate Diagnostic Report should reflect the percentage of the advisory grade rather than the percentage of the raw score in the area earned. The Board of Examiners already has made this change, which will be effective for the Candidate Diagnostic Reports issued for the November 1998 Examination.

Finally, one board expressed concern about the reliability of the Candidate Diagnostic Reports, recommending that the NASBA CPA Examination Review Board and the Board of Examiners perform an audit to ensure that the Candidate Diagnostic Reports are accurate. Both groups performed reviews of the procedures for generating the Candidate Diagnostic Reports for the May 1998 Uniform CPA Examination and tested a sample of the reports for accuracy. Both groups are assured that the types of errors that occurred on the November 1997 Candidate Diagnostic Reports will not occur again. Any additional changes to the Candidate Diagnostic Report—as with any changes in the reporting and administrative procedures regarding the Uniform CPA Examination—will be tested very carefully before implementation.

Question 13: Do you favor continuing to present awards based on performance on the CPA Examination?

A. National awards (Elijah Watt Sells Gold, Silver, and Bronze Plaques)

| | BOAs | Other |
|---------------------|-------------|--------------|
| Favor continuing | 14 | 3 |
| Favor discontinuing | 9 | 1 |
| Not sure | 1 | 0 |

B. State awards (such as gold, silver, and bronze plaques)

| | BOAs | Other |
|---------------------|------|-------|
| Favor continuing | 12 | 3 |
| Favor discontinuing | 8 | 1 |
| Not sure | 2 | 0 |

A clear majority of the boards responding favors retaining both national and state awards to top-scorers on the Uniform CPA Examination, even though giving awards for passing an examination designed to make pass/fail licensure decisions is theoretically inappropriate.

Question 14: If you have any suggestions for improving the [proposed] language for changing Section 5 (e) of the *Uniform Accountancy Act* [below], please make them:

An applicant shall be required to pass all sections of the examination provided for in subsection (d) in order to qualify for a CPA certificate. A passing grade for each section of the examination shall be issued as "pass," and a failing grade shall be issued as "fail." At an applicant's initial sitting, or whenever an applicant has no credit on any of the examination's sections, an applicant shall be given credit for those sections for which a grade of "pass" is issued by the board of accountancy provided the applicant meets the following requirements—

- (1) the applicant wrote all sections of the examination;
- (2) the applicant received a "pass" grade on two or more sections of the examination; and
- (3) the applicant attained a failing grade of at least two-thirds of the minimum "pass" grade on all remaining sections of the examination.

An applicant who has credit for two or three sections of the examination does not need to sit for reexamination for those sections for which credit has been given, provided the applicant passes the remaining sections within six consecutive examinations after the date of the examination at which the applicant initially was given credit for two or more sections of the examination. However, at each subsequent sitting at which the applicant seeks to pass the sections for which credit has not been given, the applicant shall be given credit for those sections for which a grade of "pass" is issued by the board of accountancy, provided the applicant meets the following requirements—

- (4) the applicant writes all sections of the examination for which the applicant does not have credit, and
- (5) the applicant attains a failing grade of at least two-thirds of the minimum "pass" grade on all remaining sections of the examination.

This question elicited few but varied responses. One BOA suggested that "pass/fail" should be inserted for "numeric" scores. Another board mentioned that it prefers language that requires

boards to give the Examination once a year with authority to write regulations regarding the Examination. Finally, one BOA made a general comment saying that changes were needed for a computer-based examination with regard to pass/fail grade reporting.

Question 15: What other issues must the Board of Examiners and boards of accountancy address before they could implement pass/fail grade reporting for the CPA Examination?

This question had more responses than Question 14, but they were equally varied. One board stated that the cost of additional staff to convert from numeric to pass/fail grades would be substantial. Another board suggested obtaining a written commitment from all boards to implement pass/fail grade reporting by a reasonable date. Once a uniform commitment is obtained, the AICPA, NASBA, and each board should work together towards meeting the implementation date.

Another board concluded that pass/fail grade reporting benefits no one. It further concluded that computerization of the Uniform CPA Examination does not limit grade reporting to pass/fail. In addition, the board asked whether anyone had looked into the legal consequences of such a decision. This board stated that there is a serious possibility that it may not be justifiable as a rational and defensible action.

Another board commented that a clear progression to a computerized examination should be determined and communicated. This board believes that numeric advisory grades are important to effective management of the examination under its laws. The board further stated that if computerization of the examination would eliminate numeric grades, then the total process of conversion to a computer-based examination should be examined now, with pass/fail reporting as one element. According to this board, uniformity of grade reporting is important for the continued credibility of the Uniform CPA Examination.

A comment from a different BOA said that the CPA Examination should not switch to pass/fail grade reporting before becoming computer administered. This board was concerned that uncoordinated changes to the Examination could damage the Examination's prestige. This board alluded to the administrative and public relations problems that arose after switching from clearing grades between 70 and 74 to reporting all grades as computed. This board concluded by saying that a transition to pass/fail grade reporting would be more natural when the Uniform CPA Examination becomes computer administered.

The last board comment suggested that before proceeding, the AICPA should release the actual responses to the invitation to comment to allow the BOAs to accurately determine the level of interest of the BOAs nationally and regionally. The Board of Examiners agrees this information should be available to boards and will make copies of the comments available to any board on request. Copies of the responses have already been made available to representatives of the NASBA Examinations Committee.

Question 16: Please submit additional comments and suggestions below or on a separate page.

Five boards responded to this question. Two boards commented on the Candidate Diagnostic Report. One board was concerned that the Candidate Diagnostic Report shows the percentage earned for each major content area on the content specification outlines. It said that the report

might be misunderstood and/or misused as a "backdoor" approach to reporting numeric grades. The other board was concerned about the level of detail included in the Candidate Diagnostic Report, suggesting that more detail than is currently given is needed. However, the same board also warned against including too much detail in the Candidate Diagnostic Report..

A third board mentioned that it is not appropriate to convert to pass/fail. It stated that converting to pass/fail would likely lead to eliminating the essay questions, which it believes are essential to evaluating marginal candidates. The board went on to say that retaining the essay portion also lends credence to educators when they explain to students the importance of writing skills. On another point, this board felt that a pass/fail system would be "one more step toward nationalization," which it believes is not in the best interest of the public.

A fourth board stated that we should return to clearing grades between 70 and 74. A fifth board commented that boards that did not have "standard" conditioning requirements should adopt provisions such as the 50% minimum score on parts not passed

Conclusion

After evaluating the responses to the invitation to comment, the Board of Examiners has concluded that there is insufficient support at present for the Board of Examiners to report advisory pass/fail grades to boards of accountancy. Based on the comments it received on pass/fail grade reporting, the Board of Examiners believes this issue should be reevaluated when the Uniform CPA Examination becomes computer administered in 2003, or earlier if requested by boards of accountancy or the NASBA Examinations Committee.